REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE June 20, 2016

REVENUE MEMORANDUM CIRCULAR NO. 64-2016

SUBJECT	:	**Circularizing Clarifications in the Nature, Tax Treatment, Registration and Compliance Requirements of Corporations and Associations under Section 30 of the National Internal Revenue Code of 1997, as Amended**
TO	:	All Internal Revenue Officers and Other Concerned

I. BACKGROUND

Section 30 of the National Internal Revenue Code (NIRC) of 1997, as amended enumerates only eleven (11) kinds of organization and expressly provides that such organizations shall not taxed under Title II (Tax on Income) in respect to income received by them as such.

In determining whether or not a corporation falls within the contemplation of these 11 categories, reference is made to Sections 25, 26, 27, 29, 30, 31, 32, 34, 35 of Revenue Regulations 02-40 dated February 10, 1940 (the Income Tax Regulations) describing most of these corporations and their respective operations. As a supplement, reference is likewise made to Revenue Regulations No. 13-98[1] which specifically defined corporations falling under letters (E) and (G) of Section 30 as donee institutions in implementing Section 34(H) on the Deductibility of Contributions or Gifts Actually Paid or Made to Accredited Donee Institutions.

Revenue Memorandum Circular (RMC) No. 76-03[2] on the *"Tax Exemptions of Non-Stock, Non-Profit Corporations under Section 30, Tax Code of 1997 and Non-stock, Non-Profit Educational Institutions under Paragraph 3, Section 4, Article XIV of the Constitution"* was previously issued due to observed substantial revenue losses relating to non-implementation of taxes to non-stock, non-profit corporations and non-stock, non-profit educational institutions.

The foregoing notwithstanding, the perception still is that all corporations registered as non-stock, non-profit with the Securities and Exchange Commission (SEC) automatically fall under Section 30 of the NIRC of 1997, as amended, and that, all income derived by them are totally exempt from income tax or all taxes for that matter.

Frequently overlooked is the significance of the last paragraph of Section 30 which expressly states that-

> *"Notwithstanding the provisions in the preceding paragraphs, the income of whatever kind and character of the foregoing organizations from any of their properties, real or personal, or from any of their activities conducted*

[1] Implementing Republic Act No. 8424, "An Act Amending the National Internal Revenue Code, as Amended" Specifically Section 34 (H) Relative to the Deductibility of Contributions or Gifts Actually Paid or Made to Accredited Donee Institutions in Computing Taxable Income

[2] November 14, 2003

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION
2:40 P.M.
JUN 20 2016

for profit regardless of the disposition made of such income, shall be subject to tax imposed under this Code."

Thus, organizations and corporations enumerated under Section 30 of the NIRC of 1997 are subject to the corresponding internal revenue taxes imposed on income derived by them from any of their properties, real or personal, or any activity conducted for profit regardless of the disposition thereof, which income should be returned for taxation.

Common to all organizations defined under Section 30 is that they must be operating or operated as such kind of organization. In *Commissioner of Internal Revenue vs. St. Luke's Medical Center, Inc.*[3], the Supreme Court declared among others:

The test of exemption is not strictly a requirement on the intrinsic nature or character of the institution. The test requires that the institution use the property in a certain way, i.e. for a charitable purpose.

Registration with the SEC as a non-stock, non-profit corporation, foundation, association or institution does not automatically exempt it from paying taxes. This only refers to its organization. The operations of a corporation generally refer to its regular activities.

Wherefore, this Circular is issued to reiterate and further clarify the nature, character and tax treatment of corporations under Section 30 of the NIRC of 1997, as amended, as well as the policies and guidelines in Revenue Regulations 7-2012 "Amended Consolidated Revenue Regulations on Primary Registration, Updates, and Cancellation", relative to the registration of such corporations and associations.

II. CLARIFICATIONS ON SECTION 30 ORGANIZATIONS

1. CHARACTERISTICS AND NATURE OF ORGANIZATIONS AND CORPORATIONS UNDER SECTION 30 OF THE NIRC OF 1997, AS AMENDED.

A. Labor, agricultural or horticultural organization not organized principally for profit.

1) **Characteristics:**
   a) It is organized as a non-stock corporation;
   b) Operated either as a labor, or agriculture, or horticulture organization;
   c) It is non-profit.

2) **Corporate Purposes:**

   a) **Labor organization** - refers to an association of workers who have combined to protect and promote the interests of its members by bargaining collectively with their employers to secure better working conditions, wages and similar benefits. A legitimate labor organization is labor organization

[3] G.R. No. 195909 and G.R. No. 195960, September 26, 2012

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION
2:30 P.M.
JUN 20 2016

duly registered with the Department of Labor and Employment, and includes any branch or local thereof.

A labor organization may also be organized to improve the grade of the workers' products and/or develop a higher degree of efficiency in their respective occupations.

b) **Agricultural and horticultural organization** – refers to an association of persons engaged in raising livestock, harvesting crops or aquatic resources, cultivating useful or ornamental plants, or similar pursuits. It may also refer to an organization engaged in cultivating the ground including the preparation of the soil, the planting of seed, the raising and harvesting of crops, and the rearing, feeding, and management of livestock. It includes organizations of persons involved in harvesting aquatic resources.

Horticulture concerns the cultivation of a garden or orchards and the growing of fruits, vegetables, flowers and ornamental plants.

3) **Actual operation:** To be entitled to exemption from income taxation, the corporation must carry out activities primarily to improve the working conditions of its members, improve the grade of their products, and/or develop a higher degree of efficiency in their respective occupations or the improvement of production techniques.

B. Mutual savings bank not having a capital stock represented by shares, and cooperative bank without capital stock organized and operated for mutual purposes and without profit;

1) **Characteristics:**

a) It is an organization which has no capital stock represented by shares, and
b) Whose earnings less only the expenses of operation, are distributable wholly among the depositors. If it appears that the organization has shareholders who participate in the profits, the organization will not be exempt from income tax.

With the passage of Republic Act No. (RA) 8367, otherwise known as "*Revised Non-Stock Savings and Loan Association Act of 1997*", which grants tax exemption to non-stock savings and loan associations, and by RA 6938, otherwise known as the "*Cooperative Code of the Philippines*", as amended by RA 9520, otherwise known as "Philippine Cooperative Code of 2008", which grants tax incentives to cooperative banks, recognition of tax exemptions of non-stock savings and loan associations and cooperative banks are now governed by RA 8367 and RA 9520, respectively, and not by Section 30(B).

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION
2:00 P.M.
JUN 20 2016
RECEIVED

C. **A beneficiary society, order or association, operating for the exclusive benefit of the members such as a fraternal organization operating under the lodge system, or mutual aid association or a non-stock corporation organized by employees providing for the payment of life, sickness, accident, or other benefits exclusively to the members of such society, order, or association, or non-stock corporation or their dependents:**

1) **Characteristics:**
   a) It is organized as
      i. A beneficiary society, order or association, operating for the exclusive benefit of the members such as a fraternal organization operating under the lodge system; or
      ii. A mutual aid association; or
      iii. A non-stock corporation organized by employees providing for the payment of life, sickness, accident, or other benefits exclusively to the members of such society, order, or association, or non-stock corporation or their dependents

   b) It must provide for the payment of life, sick, accident, or other benefits to the members of such society, order, or association or their dependents;

2) **Corporate purposes:** The organization should operate to assist their members through the provision of benefits through an established system of benefit payments to its members and their dependents.

3) **Actual operation:** The association must be operated either as—

   a) A fraternal organization under the lodge system or a mutual aid association providing for the exclusive benefit of the members, or a non-stock corporation organized by employees providing for the payment of life, sickness, accident, or other benefits exclusively to the members of such society, order, or association, or non-stock corporation or their dependents; and
   b) It should have an established system of benefit payments to its members and their dependents or established system for the payment of life, sick, accident, or other benefits to its members or their dependents.

D. **Cemetery company owned and operated exclusively for the benefit of its members;**

1) **Characteristics:**
   a) It is organized as non-stock corporation;
   b) Owned by and operated exclusively for the benefit of its lot owners;
   c) It is chartered solely for burial purposes and not permitted by its charter to engage in any business not necessarily incident to that purpose,
   d) It is not operated for profit; and
   e) No part of its net earnings inures to the benefit of any private shareholder or individual.

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION
2:00 P.M.
JUN 20 2005

2) **Corporate purposes:** The corporation is organized as a cemetery company for the exclusive benefit of its members, solely for the purpose of the disposal of bodies by burial and that its Articles of Incorporation shall not permit it to engage in any business not necessarily incident to that purpose; and that no part of its net earnings inures to the benefit of any private shareholder or individual.

3) **Actual operation:** It is operated solely for burial purposes and not permitted by its charter to engage in any business not necessarily incident to that purpose, is exempt from income tax. No part of its net earnings should inure to the benefit of any private shareholder or individual. Earnings of the company may be used for the operation, maintenance, and improvement of the cemetery.

E. **Non-stock corporation or association organized and operated exclusively for religious, charitable, scientific, athletic, or cultural purposes, or for the rehabilitation of veterans, no part of its net income or asset shall belong to or inures to the benefit of any member, organizer, officer or any specific person;**

1) **Characteristics:**
   a) A non-stock corporation or association
   b) Organized and operated exclusively for :
      i. religious,
      ii. charitable,
      iii. scientific,
      iv. athletic, or
      v. cultural purposes, or
      vi. for the rehabilitation of veterans,
   c) No part of its net income or asset shall belong to or inures to the benefit of any member, organizer, officer or any specific person

2) **Corporate purposes:**

   1) **Religious purposes** – refers to the promotion, propagation and accomplishment of any form of religion, creed or religious belief recognized by the Government of the Republic of the Philippines.

   2) **Charitable purposes** – refers to activities extending relief to the poor, distressed and underprivileged and shall include fighting against juvenile delinquency and community deterioration, and provision for free goods and services to the public.

   3) **Scientific purposes** – refers to undertaking or assisting in pure or basic, applied and scientific research in the field of agriculture, forestry, fisheries, industry, engineering, energy development, food and nutrition, medicine, environment and biological, physical and natural sciences for the public interest.

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION
2:15 P. M.
JUN 2 3 2016
RECEIVED

4) **Athletic purposes** – refers to and include conducting a program on physical fitness and amateur sports development for the country; developing and maintaining recreational facilities, playgrounds and sports centers; and conducting training programs for the development of youth and athletes for national and international competitions.

5) **Cultural purposes** – refers to and include undertaking and/or assisting in research activities on all aspects of history, social system, customs and traditions; developing, enriching and preserving Filipino arts and culture; developing and promoting the visual and performing arts; and participating in vigorous implementation of bilingual policy through translation and wider use of technical, scientific and creative publications, development of an adaptive technical dictionary and use of Filipino as the medium of instruction.

6) **Rehabilitation of veterans** – refers to services extended to Philippine veterans and members of their families because of financial difficulties and attendant problems; and services extended to disabled veterans towards productive life.

3) **Actual operation:** A corporation is exempt from tax on its income (other than income of whatever kind and character from its properties, real or personal) if such corporation meets two tests: (a) It must be organized and operated for one or more of the specified purposes; and (b) no part of its net income must inure to the benefit of private stockholders or individuals.

F. Business league, chamber of commerce, or board of trade, not organized for profit and no part of the net income of which inures to the benefit of any private stock-holder, or individual;

1) **Characteristics:**
   a) Organized as a business league, chamber of commerce, or board of trade;
   b) Operated as an association of persons having some common business interest, which limits its activities to work for such common interest;
   c) It does not engage in a regular business of a kind ordinarily carried on for profit;
   d) It is non-profit;
   e) No part of its net income or asset shall belong to or inures to the benefit of any member, organizer, officer or any specific person

2) **Corporate purposes:** To promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade.

3) **Actual operations:** Its activities should be directed to the improvement of business conditions of one or more lines of business and should not to engage in a regular business of a kind ordinarily carried on for profit. No part of its net income or asset shall belong to or inures to the benefit of any member, organizer, officer or any specific person.

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION
2:00 P. M.
JUN 20 2016
RECEIVED

G. **Civic league or organization not organized for profit but operated exclusively for the promotion of social welfare:**

1) **Characteristics:**
   a) It is organized as a non-stock corporation;
   b) It is exclusively operated for the promotion of social welfare organized;
   c) It is not organized for profit; and
   d) It has no net earnings or assets inuring to the benefit of any member, organizer, officer or any specific person

2) **Corporate purposes:** The organization must be primarily engaged in promoting the common good and general welfare of the people of the community, *i.e.* for the purpose of bringing about civic betterments and social improvements.

3) **Actual operations:** To be entitled to the exemption, the regular activities of the corporation must be exclusively for promotion of social welfare. No part of its net income or asset shall belong to or inures to the benefit of any member, organizer, officer or any specific person.

H. **A non-stock and nonprofit educational institution;**

1) **Characteristics:**
   a) It is organized as a non-stock, non-profit corporation;
   b) *It* is purposely organized as an educational institution;
   c) It is registered or recognized by the Department of Education (DepEd), Commission on Higher Education (CHED), or Technical Education and Skills Development Authority (TESDA); and
   d) It has no net earnings or assets inuring to the benefit of any member, organizer, officer or any specific person

2) **Corporate purposes:** The corporation must be purposely established as an educational institution to offer educational courses or programs.

3) **Actual operations:** The institution operates as a primary or secondary school, a college, or a professional or trade school that has a regularly scheduled curriculum, a regular faculty, and a regularly enrolled student body in attendance at a place where the educational activities are regularly carried on.

The operation of cafeterias/canteens and bookstores are considered ancillary activities to educational purposes provided they are owned and operated by the educational institution and located within its premises.

No part of its net income or asset shall belong to or inure to the benefit of any member, organizer, officer or any specific person.

I. **Government educational institution;**

1) **Characteristics:**
   a) It is established by law or a local government unit;

BUREAU OF INTERNAL REVENUE
RECORDS MGMT. DIVISION
2:00 P. M.
JUN 20 2018

b) It is administered and financially subsidized by the government or the local government concerned;
c) It is governed by the Board of Trustees or Board of Regents; and
d) It is supervised by DepEd or CHED

2) **Corporate purposes:** It is established an educational institution financed and operated by an agency of government which does not charge tuition fees; instead, financing is obtained through taxes or other government-collected revenues.

3) **Actual operations:** The institution operates as a primary or secondary school, a college, or a professional or trade school that has a regularly scheduled curriculum, a regular faculty, and a regularly enrolled student body in attendance at a place where the educational activities are regularly carried on.

J. Farmers' or other mutual typhoon or fire insurance company, mutual ditch or irrigation company, mutual or cooperative telephone company, or like organization of a purely local character, the income of which consists solely of assessments, dues, and fees collected from members for the sole purpose of meeting its expenses;

1) **Characteristics:**
a) It is organized as a non-stock, non-profit organization;
b) It is organized as a farmers' or other mutual typhoon or fire insurance company, mutual ditch or irrigation company, mutual or cooperative telephone company, or like organization of a purely local character;
c) Income consists solely of assessments, dues, and fees collected from members; and
d) Its income is for sole purpose of meeting its expenses.

2) **Corporate purposes:** It is established for the operation of a mutual typhoon or fire insurance company, mutual ditch or irrigation company, mutual or cooperative telephone company. Organizations, other than mutual life insurance associations, must be organized and operated on a mutual basis *i.e.* it is owned by its members and policy holders who are banded together to provide themselves a mutually desirable service approximately at cost and on a mutual basis.

3) **Actual operations:**
a) A mutual insurance company owned entirely by its policy holders; or association of farmers direct beneficiaries of the operation of an irrigation project/system; or a telephone company owned and operated by the members to provide telephone services for the benefit of the members.
b) These organizations are operated on a mutual basis and must use their income solely to cover losses and expenses, with any excess being returned to members or retained to cover future losses and expenses.
c) A mutual life insurance organization cannot have policyholders other than its members.

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION
2:00 P.M.
JUN 29 2016
RECEIVED

However, associations organized as cooperatives and registered with the Cooperative Development Authority shall be governed by R.A. 9520 or "Philippine Cooperative Code of 2008".

K. Farmers', fruit growers', or like association organized and operated as a sales agent for the purpose of marketing the products of its members and turning back to them the proceeds of sales, less the necessary selling expenses on the basis of the quantity of produce finished by them:

1) **Characteristics:**
   a) It is organized as a non-stock, non-profit organization;
   b) It is organized as an association or organization whose members are engaged in farming, fruit growing, or similar occupations;
   c) Its income is for sole purpose of meeting its expenses.

2) **Corporate purposes:** To act operate as a sales agent for the purpose of marketing the products of its members and turning back to them the proceeds of sales, less the necessary selling expenses on the basis of the quantity of produce finished by them.

3) **Actual operations:**
   a) Associations, acting as sales agents for farmers or others, in order to come within the exemption must establish that for their own account they have no net income.
   b) It should return to the members the proceeds of sales after deducting the necessary selling expenses on the basis of the quantity of produce finished by them.
   c) The proceeds of the business should be distributed on such proportionate basis.

2) USE OF OPERATIONAL & ORGANIZATIONAL TESTS IN DETERMINING ENTITLEMENT TO EXEMPTION

The requirements for a tax exemption are specified by the law granting it and the requirements for a tax exemption are strictly construed against the taxpayer because an exemption restricts the collection of taxes necessary for the existence of the government. Thus, the corporation should be able to show that it is organized and operated for the purposes under Section 30 of the NIRC and income derived pursuant thereto. Simply put, the organization must establish the factual basis for its exemption.

Organizational Test: This requires that the corporation or association's constitutive documents exclusively limit its primary purpose/s to those described in of Section 30 of the NIRC, as amended.

Operational Test: This requires that the regular activities of the corporation or association be exclusively devoted to the accomplishment of the purposes specified in Section 30 of the NIRC, as amended. A corporation or association fails to meet this test if a substantial part of its operations may be considered "activities conducted for profit".

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION
2:10 P. M.
JUN 20 2016
RECEIVED

3) NON-PROFIT, INUREMENT PROHIBITION

Corporations in Section 30 are organized not for profit. "*Non-profit*" means that "no net income or asset accrues to or benefits any member or specific person, with all the net income or asset devoted to the institution's purposes and all its activities conducted not for profit".[4]

Therefore, in order for an entity to qualify as a non-stock and/or non-profit corporation/association/organization exempt from income tax under Section 30 of the NIRC, as amended, it must thus demonstrate that its earnings or assets shall not inure to the benefit of any of its trustees, organizers, officers, members or any specific person.[5] It must not be organized or operated for the benefit of private interests such as specific individuals, incorporators or his family, shareholders of the organization, or persons controlled directly or indirectly by such private interests. The organization must serve a public rather than a private purpose.

A. The following are considered "inurements" of such nature:

1) The payment of compensation, salaries, or honorarium to its trustees or organizers;

2) The payment of exorbitant or unreasonable compensation to its employees;

3) The provision of welfare aid and financial assistance to its members. An organization is not exempt from income tax if its principal activity is to receive and manage funds associated with savings or investment programs, including pension or retirement programs. This does not cover a society, order, association, or non-stock corporation under Section 30(C) of the NIRC providing for the payment of life, sickness, accident and other benefits exclusively to its members or their dependents;

4) Donation to any person or entity (except donations made to other entities formed for the purpose/purposes similar to its own);

5) The purchase of goods or services for amounts in excess of the *fair* market value of such goods or value of such services from an entity in which one or more of its trustees, officers or fiduciaries has an interest; and

6) When upon dissolution and satisfaction of all liabilities, its remaining assets are distributed to its trustees, organizers, officers or members. Its assets must be dedicated to its exempt purpose. Accordingly, its constitutive documents must expressly provide that in the event of dissolution, its assets shall be distributed to one or more entities formed for the purpose/purposes similar to its own, or to the Philippine government for public purpose.

---

[4] See supra note 3

[5] RMC No. 08-2014

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION
2:20 P.M.
JUN 20 2016
RECEIVED

4) TAXATION AND EXEMPTIONS OF ORGANIZATIONS AND CORPORATIONS UNDER SEC. 30 OF THE NIRC OF 1997, AS AMENDED

A. Income Tax Exemption, Not Absolute

1) Income tax exemption covers only the income received by the corporation organized and operated in accordance with Section 30 provisions.

2) Section 30 corporations are still subject to the corresponding internal revenue taxes imposed under the NIRC of 1997 on income derived from any of their properties, real or personal, or any activity conducted for profit regardless of the disposition thereof *(i.e. interest income, rental income from real or personal properties)*, which income should be reported for taxation purposes.

3) Except for non-stock, non-profit educational institutions and government educational institutions, the interest income from currency bank deposits and yield or any other monetary benefit from deposit substitute instruments and from trust funds and similar arrangement, and royalties derived from sources within the Philippines of organizations under Section 30 are subject to the 20% final withholding tax; provided, however, that interest income derived by them from a depository bank under the expanded foreign currency deposit system shall be subject to 7 1/2% final withholding tax pursuant to Section 27*(D)(1)* in relation to Section 57(A), both of the NIRC of 1997, as amended.

B. Obligation as Withholding Agent for the Government

1) The tax exemption granted under Section 30 does not cover withholding taxes on compensation income of the organization/corporation's employees, or the withholding tax on income payments to persons subject to tax pursuant to Section 57 of the NIRC of 1997.

2) The corporation or association is therefore constituted as a withholding agent for the government if it acts as an employer and any of its employees receive compensation income subject to withholding tax under Section 79(A), Chapter XIII, Title II of the NIRC of 1997, as implemented by Revenue Regulations No. 2-98, or if it makes income payments to individuals or corporations subject to the withholding tax provided for in Section 57 of the NIRC of 1997, also as implemented by Revenue Regulations No. 2-98, as amended.

C. Liability For Value-Added Tax (VAT)

1) Purchase of goods or properties or services and importation of goods by a corporation organized and operated as a Section 30 corporation shall be subject to the 12% VAT pursuant to Section 107 of the NIRC of 1997, as amended.

It should be noted that VAT is an indirect tax payable by the seller and not by the purchaser of goods. However, being an indirect tax, it can be shifted or passed on to the buyer/purchaser, transferee or lessee of the goods, properties or services. Once shifted to the buyer/customer as an addition to the cost of goods or services sold, it is no longer a tax but an additional cost which the

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION
2:00 P.M.
JUN 20 '05

buyer/customer has to pay in order to obtain the goods or services. Thus, the shifting of the VAT to it does not make it the person directly liable and therefore, it cannot invoke its tax exemption privilege under Section 30 of the NIRC of 1997 to avoid the passing on or shifting of the VAT.

2) Section 105 of the NIRC of 1997 provides that any person who, in the course of trade or business, sells, barters, exchanges, leases goods or properties, renders services, and any person who imports goods shall be subject to the value-added tax (VAT) imposed under Sections 106 to 108 of the same code.

The phrase "*in the course of trade or business*" means the regular conduct or pursuit of a commercial or an economic activity, including transactions incidental thereto, by any person regardless of whether or not the person engaged therein is a non-stock, nonprofit private organization (irrespective of the disposition of its net income and whether or not it sells its good exclusively to members or its guests), or government entity.

D. Non-Stock, Non-Profit Educational Institutions

1) Used Actually, Directly and Exclusively for Educational Purposes

The exemption of non-stock, non-profit educational institutions refers to internal revenue taxes imposed by the National Government on all revenues and assets used actually, directly and exclusively for educational purposes.[9]

Furthermore, revenues derived from assets used in the operation of cafeterias/canteens and bookstores are exempt from taxation provided they are owned and operated by the educational institution as ancillary activities and the same are located within the school premises.

2) Exemption 20% & 7% Final Tax on Interest from Deposits, Condition

Unlike non-stock, non-profit corporations, their interest income from currency bank deposits and yield from deposit substitute instruments used actually, directly and exclusively in pursuance of their purposes as an educational institution, are exempt from the 20% final tax and 7½% tax on interest income under the expanded foreign currency deposit system imposed under Section 27(D)(1) of the NIRC of 1997, subject to compliance with the conditions that as a tax-exempt educational institution, they shall on an annual basis submit to the Revenue District Office (RDO) concerned an annual information return and duly audited financial statement together with the following:

(a) Certification from their depository banks as to the amount of interest income earned from passive investment not subject to the 20% final withholding tax and 7½% tax on interest income under the expanded foreign currency deposit system imposed by Section 27(D)(1) of the NIRC of 1997;

---

[9] Paragraph 3, Section 4, Article XIV of the Constitution

BUREAU OF INTERNAL REVENUE
RECORDS MGMT. DIVISION
2:19 P.M.
JUN 23 2016
RECEIVED

(b) Certification of actual utilization of the said income; and

(c) Board Resolution by the school administration on proposed projects (i.e., construction and/or improvement of school buildings and facilities, acquisition of equipment, books and the like) to be funded out of the money deposited in banks or placed in money markets, on or before the 14th day of the fourth month following the end of its taxable year.[7]

3) **Unrelated Income of Non-Stock, Non-Profit Educational Institutions**

Non-stock, non-profit educational institutions shall be subject to internal revenue taxes on income from trade, business or other activity, the conduct of which is not related to the exercise or performance by such educational institutions of their educational purposes or functions[8] *i.e.* rental income from their building/premises

Unrelated trade, business or other activity means any trade, business or other activity, the conduct of which is not substantially related to the exercise or performance by such educational institution or hospital of its primary purpose or function.

Unrelated income of non-stock, non-profit educational institutions under Section 30(H) shall be subject to the 10% preferential rate under Section 27(B) of the NIRC of 1997, as amended. If the gross income from 'unrelated trade, business or other activity' exceeds fifty percent (50%) of the total gross income derived by such educational institutions from all sources, the entire taxable income shall be subject to the regular corporate tax rate of 30% under Section 27(A) of the NIRC of 1997, as amended.

4) **VAT-exemption**

Gross receipts from educational services rendered by private educational institutions, duly accredited by the Department of Education (DepEd) and the Commission on Higher Education (CHED), the Technical Education and Skills Development Authority (TESDA) and those rendered by government educational are exempt from VAT[9].

5) **SECTION 30 ORGANIZATIONS AS QUALIFIED DONEE INSTITUTIONS**

A. **The donee institutions covered under Section 101 of the NIRC of 1997, as amended, are those under Section 30(E) and (G) specifically:**

1) Non-profit educational and/or charitable religious, cultural, or social welfare corporation, or

---

[7] Sec. 3, Finance Department Order No. 137-87 as amended by Finance Department Order No. 149-95

[8] Sec. 2, Finance Department Order No. 137-87 as amended by Finance Department Order No. [illegible]

[9] Section 109 [1][H] of the NIRC of 1997, as amended

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION
2:00 P.M.
JUN 2[illegible] 2006

2) Accredited nongovernment organization, trust or philanthropic organization and/or research institution or organization accredited nongovernment organization, trust or philanthropic organization and/or research institution or organization

B. **To be qualified, the foregoing organizations or institutions should be:**
   1) Incorporated as a non-stock entity,
   2) Paying no dividends,
   3) Governed by trustees who receive no compensation, and
   4) Devoting all its income, whether students' fees or gifts, donation, subsidies or other forms of philanthropy, to the accomplishment and promotion of the purposes enumerated in its Articles of Incorporation, and
   5) For NGOs, Accredited by the Philippine Council for NGO Certification (PCNC).

B. **Condition of the donation.** Not more than thirty percent (30%) of said gifts shall be used by such donee for administration purposes.

C. **Donee Certification.** A qualified donee institution shall have its authorized representative sign the first page of the Certificate of Donation (BIR Form 2322) which certifies that the donee institution has received on the date indicated the subject matter (i.e., cash or property) of the donation. It also provides a description of the properties donated.

III. CLARIFICATIONS ON CORPORATE REGISTRATION GUIDELINES & PROCEDURES FOR SECTION 30 ORGANIZATIONS

1. HOW TO REGISTER

A. **BIR Forms To Be Used.** All Corporations and Associations enumerated under Section 30 of the NIRC of 1997, as amended, are required to be registered with the Bureau using the Application for Registration Form (BIR Form No. 1903) on or before the commencement of its operations.

   1) For those registering in RDOs with eTIS-1, the Application for Registration (BIR Form No. 1903 November 2014 ENCS) shall be used and the registrant shall fill in item 16B and 16C thereof. *(See Annex A)*

   2) For those registering in all other RDOs, use the Application for Registration (BIR Form No. 1903 January 2000) and accomplish item No. 3 "Taxpayer Type" by marking the box corresponding to "Non-stock Non-Profit Organization" and write underneath the specific legal basis of the exemption. *[e.g. Section 30 (H) non-stock and nonprofit educational institution]* *(See Annex A-1)*

B. **Legal Basis For Incentive/Exemption.** Registrant shall provide the specific legal basis *[e.g. Section 30 (H) non stock and nonprofit educational institution]* and the incentives to which it may be entitled as such organization (e.g. Income tax exemption) in the application form during registration.

BUREAU OF INTERNAL REVENUE
RECORDS MGMT. DIVISION
2:00 P.M.
JUN 23 2016
RECEIVED

C. **Tax Types.** For purposes of determining the proper tax type (i.e., whether VAT or other percentage taxes) based on the nature of the business activity of the taxpayer, Section 9 of Revenue Regulations No. 07-2012 shall be complied with.

Register each type of internal revenue tax for which the corporation is obligated to file a return or pay taxes due thereon. *(Section 9, Rev. Regs. 7-2012)*.

Register for withholding tax if the corporation is an employer and its employees receive compensation income under Section 79(A) or if corporation is expected to make income payments subject to expanded withholding tax under Section 57(B), both of the NIRC of 1997, as amended. The corporation or association shall be constituted as withholding agent for the government.

D. **Compliance with Secondary Registration Processes.** Upon registering with BIR, the registrant corporation must comply with the following primary and secondary registration processes and observe the prescribed periods therefor, pursuant to Revenue Regulations No. 7-2012:

- Pay Annual Registration Fee (ARF), as applicable;
- Secure Certificate of Registration (COR);
- Proceed to Secondary Registration (*i.e.* Apply for Authority to Print [ATP] receipts/invoices and Register Books of Accounts) and get "ASK FOR RECEIPT" notice, if applicable;

1) **Authority to Print Receipts/Invoices**

The Application for Authority to Print Receipts and Invoices should be secured by the corporation or association before the commencement of business operations and the printing of its principal and supplementary receipts/invoices containing all the information required in the existing revenue issuances.

All corporations or associations are required to obtain receipts by accomplishing an **Application for Authority to Print Receipts and Invoices (BIR Form No. 1906)** and submit the same together with the documentary requirements to RDO where the Head Office is located or concerned office under the Large Taxpayer Service.

The serial numbers of such receipts/invoices shall be the continuation of previously approved Authority to Print, if any.

2) **Registration of Books of Accounts**

The corporation or association shall likewise register its books of accounts and/or secure appropriate Permits to Use Loose Leaf Books of Accounts/Computerized Books of Accounts before its use.

The books of accounts and other pertinent records of organizations that are exempted by special laws or grantees of tax incentives shall be subject to examination by the BIR for purposes of ascertaining compliance with the

BUREAU OF INTERNAL REVENUE
RECORDS MGT DIVISION
2:50 P.M.
JUN 29 2016
RECEIVED

conditions under which it has been granted tax exemptions or tax incentives and its tax liabilities, if any.

2. UPDATING OF REGISTRATION

The registered corporation or association is required to update its registration information by accomplishing and filing an **Application for Registration Information Update (BIR Form No. 1905)** together with the required documents with the Revenue District Office (RDO) where registered, for any of the following circumstances:

a) When the registered corporation or association amends or changes its registered corporate/business name, business address, line of activity/business;

b) When there is a need to change in tax types, pursuant to a BIR Ruling/Certificate of Tax Exemption; or

c) Such other updates such as changes in incentive details, and accounting period.

In the event of closure or cessation of operation, the corporation or association should promptly inform the BIR and follow the existing procedures therefor.

3. ISSUANCE OF RECEIPTS AND INVOICES BY CORPORATIONS UNDER SECTION 30

A. In the regular conduct of business, all corporations or associations subject to an internal revenue tax, shall issue duly registered receipts or sales/commercial invoices showing the date of transaction, quantity, unit cost and description of merchandise or nature of service for each sale or transfer of merchandise or for services rendered valued at Twenty-five pesos (P25.00) or more.

B. The original of each receipt or invoice shall be issued to the purchaser, customer or client and which receipt or invoice shall show the name, business style, if any, and address of the purchaser, customer or client. Where the purchaser is a VAT-registered person, in addition to the information herein required, the invoice or receipt shall further show the Taxpayer Identification Number (TIN) of the purchaser.

C. For Corporations organized and operated under Section 30 of the NIRC of 1997 with Mixed Income *(deriving income/revenues from its operation as such and from other activities involving sale of goods and/or services not in connection with its Section 30 purposes or to any profit-oriented activities)*, they shall issue a VAT or Non-VAT principal receipts/invoices, as the case maybe.

D. For Corporations organized and operated under Section 30 of the NIRC of 1997 whose source of income is solely derived from its operation as such, with no other taxable income, they shall issue Non-VAT principal receipts/invoices that indicate the word "EXEMPT" prominently on the face of the receipts/invoices.

E. For transactions that are not subject to VAT or Percentage Tax, the said corporations shall issue a Non-VAT principal receipts/invoices that indicate the word "EXEMPT" prominently on the face of the receipts/invoices *(e.g. membership fees/dues, donations)*.

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION
2:20 P.M.
JUN 29 2016
RECEIVED

F. Corporations organized and operated under Section 30 of the NIRC of 1997 shall likewise issue official receipts and Certificates of Donation (BIR Form 2322) for the receipt of donations pursuant to Revenue Memorandum Circular (RMC) No. 86-2014.

4. COMPLIANCE REQUIREMENTS

A. Filing of Account Information Return and Financial Statements

For the first three (3) years of its operations, the corporation or association organized as a Section 30 corporation shall accomplish and file an **Account Information Form (BIR Form No. 1702-AIF)**[10] on or before the 15th day of the fourth month following the end of its taxable year. The AIF will contain the taxpayer's business profile information and other relevant data to be lifted from the Audited Financial Statements of the corporation.

The AIF shall be filed together with the Annual Income Tax Return (BIR Form No. 1702) on or before the 15th day of the fourth (4th) month following the close of the calendar or fiscal year, as the case may be.

Moreover, such corporation or association is required to file on or before the 15th day of the fourth month following the end of the accounting period a Profit and Loss Statement and Balance Sheet with the Annual Information Return under oath, stating its gross income and expenses incurred during the preceding period.

B. Filing of Income Tax Returns

1) For Corporations organized and operated under Section 30 of the NIRC of 1997 whose source of income is solely derived from its operation as such, with no other taxable income, they shall file annual income tax returns **(BIR Form No. 1702-EX)** and attach a copy of Confirmatory BIR Rulings or Certificate of Tax Exemptions, if any. They are not required to file the monthly and quarterly VAT/Percentage tax returns and quarterly income tax return (BIR Form No. 1702Q).

2) For Corporations under Section 30 of the NIRC of 1997, as amended, with Mixed Income or having other activities involving sale of goods and/or services not in connection with its primary purposes or to any profit-oriented activities, shall file the monthly and quarterly VAT/Percentage tax returns and quarterly and annual income tax returns **(BIR Form No. 1702-MX)**.

Illustration:

	Prescribed Returns
For Corporations under Section 30 of the NIRC of 1997 whose source of income is solely, directly and exclusively for its primary purposes with no	1702-EX; If applicable: 1601C/1604CF;

[10] Downloadable from BIR website

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION
2:02 P.M.
JUN 28 2016

other taxable income, organized and operated under Section 30 of the NIRC of 1997, as amended	1601E/1604E; Other applicable returns
For Corporations under Section 30 of the NIRC of 1997, as amended, with Mixed Income or having other activities involving sale of goods and/or services not in connection with its primary purposes or to any profit-oriented activities	1702-MX; 1702Q (1st to 3rd Quarter) 2550M/2550Q; 2551M/2551Q; If applicable: 1601C/1604CF; 1601F/1604E; Other applicable returns

*(See **Annex B** for examples of profit-oriented activities)*

3) Where the law, revenue regulations or related revenue issuances expressly require the submission or attachment of specific document/s or certification/s along with the filing of Annual Income Tax Returns, herein corporations and association shall likewise comply.

This Circular shall be given as wide a publicity as possible.

KIM S. JACINTO – HENARES
Commissioner of Internal Revenue

042227

K-1

BUREAU OF INTERNAL REVENUE
RECORDS MGT. DIVISION
2:00 P.M.
JUN 20 2016
RECEIVED